

Township of Fabius
St. Joseph County, Michigan
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
Year ended March 31, 2008

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Township of Fabius
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Township of Fabius' (the Township) financial performance provides a narrative overview of the Township's financial activities for the fiscal year ended March 31, 2008. Please read it in conjunction with the Township's financial statements.

FINANCIAL HIGHLIGHTS

- The Township's total net assets increased by \$248 thousand (7 percent) as a result of this year's activities.
- Of the \$3.64 million total net assets reported, \$2.95 million (81 percent) is unrestricted, or available to be used at the Board's discretion.
- The General Fund's unreserved, undesignated fund balance at the end of the fiscal year was \$780 thousand, which represents 98 percent of the actual total General Fund expenditures for the current fiscal year.

Overview of the financial statements

The Township's basic financial statements are comprised of four parts: management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township, reporting the Township's operations in more detail than the government-wide financial statements.
 - Governmental fund statements tell how general government services, like public safety, were financed in the short-term, as well as what remains for future spending.
 - Fiduciary fund statements provide information about the financial relationships in which the Township acts solely as a trustee or agent for the benefit of others to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Government-wide financial statements

The government-wide financial statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Township's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

Township of Fabius
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The two government-wide statements report the Township's net assets and how they have changed. Net assets (the difference between the Township's assets and liabilities) are one way to measure the Township's financial health or position.

- Over time, increases or decreases in the Township's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township, you need to consider additional nonfinancial factors, such as changes in the Township's property tax base and the condition of the Township's capital assets.

The government-wide financial statements present *governmental activities*. These activities include functions most commonly associated with government (e.g., general government, public safety, public works, library, etc.). Refuse royalties and state grants generally fund these services.

Fund financial statements

The fund financial statements provide more detailed information about the Township's most significant funds - not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond agreements.
- The Township Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and other revenues.

The Township has two kinds of funds:

- **Governmental funds.** Most of the Township's basic services are included in governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flows in and out and, (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental fund statements that explains the relationship between them.
- **Fiduciary funds.** These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the government. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The Township's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

Township of Fabius
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

Net assets. Total net assets at the end of the fiscal year were \$3.64 million. Of this total, \$679 thousand is invested in capital assets and \$15 thousand is restricted for public safety. Consequently, unrestricted net assets were \$2.95 million.

Condensed financial information
Net Assets

	<i>Governmental activities</i>	
	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 3,012,219	\$ 2,917,332
Capital assets	<u>678,521</u>	<u>494,694</u>
Total assets	<u>3,690,740</u>	<u>3,412,026</u>
Other liabilities	<u>47,004</u>	<u>15,940</u>
Net assets:		
Invested in capital assets	678,521	494,694
Restricted	15,443	16,575
Unrestricted	<u>2,949,772</u>	<u>2,884,817</u>
Total net assets	<u>\$ 3,643,736</u>	<u>\$ 3,396,086</u>

Township of Fabius
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Changes in net assets. The Township's total revenues are \$869 thousand. Nearly 40 percent of the Township's revenues come from refuse royalties and 26 percent come from state grants.

The total cost of all the Township's programs, covering a wide range of services, totaled \$621 thousand. About 44 percent of the Township's costs relate to the provision for general government. Public safety costs account for 32 percent and recreation and culture costs are 9 percent of the Township's total expenses.

Condensed financial information
Changes in Net Assets

	<i>Governmental activities</i>	
	2008	2007
Program revenues:		
Charges for services	\$ 75,298	\$ 61,405
Operating grants and contributions	5,964	6,019
Capital grants and contributions	-	6,972
General revenues:		
Property taxes	48,752	43,782
State shared revenue	224,614	223,473
Refuse royalties	349,670	366,290
Interest income	164,278	128,161
Miscellaneous	-	1,736
Total revenues	868,576	837,838
Expenses:		
Legislative	15,087	9,343
General government	271,606	244,245
Public safety	198,867	177,933
Public works	39,794	13,680
Health and welfare	12,679	12,278
Community and economic development	26,893	15,471
Recreation and culture	56,000	56,000
Total expenses	620,926	528,950
Increase in net assets	\$ 247,650	\$ 308,888

Governmental activities. Governmental activities increased the Township's net assets by \$248 thousand compared to \$309 thousand last year. Changes in individual categories of net expenses or general revenues were generally not significant, although significant increase in interest revenue was expected due to increased interest rates during the past fiscal year.

The cost of all governmental activities this year was close to \$621 thousand. After subtracting the direct charges to those who directly benefited from the programs (\$75 thousand), and operating grants (\$6 thousand), the "public benefit" portion covered by refuse royalties, state revenue sharing, and other general revenues was \$540 thousand, compared to \$455 thousand in 2007.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

Governmental funds. As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$2,963,183, an increase of \$66,868 over the prior year. Of the total fund balances, 99 percent constitutes unreserved fund balance, which is available for spending at the Township's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) for building inspections (\$15 thousand).

The General Fund is the primary operating fund of the Township. At the end of the fiscal year, unreserved fund balance was \$780 thousand, which increased by \$6 thousand during the fiscal year compared to a decrease of \$78 thousand in 2007. The increase was a result of reduced road maintenance projects and a transfer from the Capital Improvement Fund to cover the Township's portion of land acquired on which the Fire Association will build a new fire station.

The Capital Improvement Fund experienced an increase in fund balance of \$62 thousand. The increase was a result of the interest earned less the transfer to the General Fund.

General Fund budgetary highlights

The Township amended the General Fund budgeted expenditures during the year. Total budgeted expenditures were increased by \$139,000 to cover previously unanticipated costs for general government, building inspections, planning, and capital outlay.

The difference between the actual and budgeted amounts \$144,175 can be attributed to decisions to limit expenditures throughout the year.

Capital assets

The Township's investment in capital assets for its governmental activities as of March 31, 2008, amounts to \$679 thousand (net of accumulated depreciation). This investment includes a broad range of assets, including land, buildings, equipment, and infrastructure. The increase in the Township's net investment in capital assets for the current fiscal year was \$184 thousand, comprised of road infrastructure, fire infrastructure, computers and furnaces.

More detailed information about the Township's capital assets is presented in Note 5 of the notes to the basic financial statements.

Economic condition and outlook

Refuse royalties are expected to remain constant during 2009. The Township plans to maintain all ongoing programs for 2008. State shared revenues are likely to decrease in 2009 due to the State of Michigan's on going budgetary challenges. The Lockport, Fabius and Park Township Fire Association has acquired land on which to build a new fire station and the Township is expected to contribute several hundred thousand dollars to support this building project during the 2009 and 2010 fiscal years.

Contacting the Township's financial management

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Robert McDonough, Township Supervisor
Township of Fabius
P.O. Box 455
Three Rivers, Michigan 49093

Phone: (269) 244-5376

SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

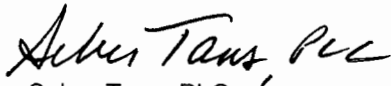
Board of Trustees
Township of Fabius, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Fabius, Michigan (the Township) as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Fabius, Michigan as of March 31, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Seber Tans, PLC
Kalamazoo, Michigan

September 12, 2008

BASIC FINANCIAL STATEMENTS

Township of Fabius
STATEMENT OF NET ASSETS
March 31, 2008

	<u>Governmental activities</u>
ASSETS	
Current assets:	
Cash	\$ 2,429,776
Investments	475,645
Receivables, net	104,766
Prepaid expenses	<u>2,032</u>
Total current assets	<u>3,012,219</u>
Noncurrent assets:	
Capital assets not being depreciated	63,000
Capital assets, net of accumulated depreciation	<u>615,521</u>
Total noncurrent assets	<u>678,521</u>
Total assets	<u>3,690,740</u>
LIABILITIES	
Current liabilities - payables	<u>47,004</u>
NET ASSETS	
Invested in capital assets	678,521
Restricted - public safety	15,443
Unrestricted	<u>2,949,772</u>
Total net assets	<u>\$ 3,643,736</u>

See notes to financial statements

Township of Fabius
STATEMENT OF ACTIVITIES
Year ended March 31, 2008

		<u>Program revenues</u>		<u>Net (expenses)</u> <u>revenues and</u> <u>changes in</u> <u>net assets</u>
		<u>Charges for</u> <u>services</u>	<u>Operating</u> <u>grants and</u> <u>contributions</u>	<u>Governmental</u> <u>activities</u>
Functions/Programs	<u>Expenses</u>			
Governmental activities:				
Legislative	\$ 15,087	\$ -	\$ -	\$ (15,087)
General government	271,606	8,967	-	(262,639)
Public safety	198,867	56,775	-	(142,092)
Public works	39,794	8,356	5,964	(25,474)
Health and welfare	12,679	-	-	(12,679)
Community and economic development	26,893	1,200	-	(25,693)
Recreation and culture	56,000	-	-	(56,000)
Total governmental activities	<u>\$ 620,926</u>	<u>\$ 75,298</u>	<u>\$ 5,964</u>	<u>(539,664)</u>
General revenues:				
Taxes				48,752
State grants				224,614
Investment income				164,278
Refuse royalties				<u>349,670</u>
Total general revenues				<u>787,314</u>
Change in net assets				247,650
Net assets - beginning				<u>3,396,086</u>
Net assets - ending				<u>\$ 3,643,736</u>

See notes to financial statements

Township of Fabius
BALANCE SHEET - governmental funds
 March 31, 2008

	<u>General</u>	<u>Capital Improvement</u>	<u>Total governmental funds</u>
ASSETS			
Cash	\$ 737,788	\$ 1,691,988	\$ 2,429,776
Investments	-	475,645	475,645
Receivables	104,766	-	104,766
Total assets	<u>\$ 842,554</u>	<u>\$ 2,167,633</u>	<u>\$ 3,010,187</u>
LIABILITIES AND FUND BALANCES			
Liabilities - payables	<u>\$ 47,004</u>	<u>\$ -</u>	<u>\$ 47,004</u>
Fund balances:			
Reserved for building inspections	15,443	-	15,443
Unreserved	<u>780,107</u>	<u>2,167,633</u>	<u>2,947,740</u>
Total fund balances	<u>795,550</u>	<u>2,167,633</u>	<u>2,963,183</u>
Total liabilities and fund balances	<u>\$ 842,554</u>	<u>\$ 2,167,633</u>	<u>\$ 3,010,187</u>
Total fund balances - total <i>governmental activities</i>			\$ 2,963,183
Amounts reported for <i>governmental activities</i> in the statement of net assets (page 5) are different because:			
Capital assets used in <i>governmental activities</i> are not financial resources and, therefore, are not reported in the funds.			678,521
Prepaid expenses are not a current financial resource and, therefore, are not reported in the funds.			<u>2,032</u>
Net assets of <i>governmental activities</i>			<u>\$ 3,643,736</u>

See notes to financial statements

Township of Fabius**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN****FUND BALANCES - governmental funds***Year ended March 31, 2008*

	<u>General</u>	<u>Capital Improvement</u>	<u>Total governmental funds</u>
REVENUES			
Taxes	\$ 48,752	\$ -	\$ 48,752
Licenses and permits	33,828	-	33,828
State grants	230,578	-	230,578
Charges for services	32,286	-	32,286
Interest, rentals, and royalties	392,255	121,693	513,948
Other	1,928	-	1,928
	<u>739,627</u>	<u>121,693</u>	<u>861,320</u>
EXPENDITURES			
Legislative	15,087	-	15,087
General government	276,095	-	276,095
Public safety	191,887	-	191,887
Public works	149,721	-	149,721
Health and welfare	9,586	-	9,586
Community and economic development	26,893	-	26,893
Recreation and cultural	56,000	-	56,000
Capital outlay	69,183	-	69,183
	<u>794,452</u>	<u>-</u>	<u>794,452</u>
EXCESS (DEFICIENCY) REVENUES OVER EXPENDITURES	<u>(54,825)</u>	<u>121,693</u>	<u>66,868</u>
OTHER FINANCING SOURCES (USES)			
Transfer in	60,000	-	60,000
Transfer out	-	(60,000)	(60,000)
	<u>60,000</u>	<u>(60,000)</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	<u>5,175</u>	<u>61,693</u>	<u>66,868</u>
FUND BALANCES - BEGINNING	<u>790,375</u>	<u>2,105,940</u>	<u>2,896,315</u>
FUND BALANCES - ENDING	<u>\$ 795,550</u>	<u>\$ 2,167,633</u>	<u>\$ 2,963,183</u>

See notes to financial statements

Township of Fabius

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN

FUND BALANCES - *governmental funds*

Year ended March 31, 2008

Net change in fund balances - total governmental funds	\$ 66,868
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Amounts reported for *governmental activities* in the statement of activities (page 6) are different because:

Capital assets:

Assets acquired	216,670
Net basis of disposition	(690)
Provision for depreciation	(32,153)

Changes in other assets - prepaid expense	<u>(3,045)</u>
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Change in net assets of <i>governmental activities</i>	<u><u>\$ 247,650</u></u>
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See notes to financial statements

Township of Fabius
STATEMENT OF FIDUCIARY NET ASSETS - *Agency Fund*
March 31, 2008

ASSETS

Cash	\$ <u>2,088</u>
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LIABILITIES

Due to others	\$ <u>2,088</u>
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See notes to financial statements

Township of Fabius
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Township of Fabius, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies.

a) Reporting entity:

The accompanying financial statements present only the Township. There are no component units, entities for which the Township is considered to be financially accountable.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the Township. The effect of inter-fund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Township of Fabius
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the government.

The Township reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund. Revenues are primarily derived from state shared revenue and refuse royalties.

The Capital Improvement Fund accounts for the financial resources used for capital improvements within the Township. Revenues are primarily derived from investment income and contributions from the General Fund.

The Township reports a single fiduciary fund, Agency Fund, which accounts for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; and (2) operating grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted as they are needed.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Pooled interest income is proportionately allocated to all funds.

ii) Investments - Investments are reported at fair value.

iii) Receivables - No allowance for uncollectible accounts has been recorded as the Township considers all receivables to be fully collectible.

iv) Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 (\$10,000 for infrastructure) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to

Township of Fabius
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) *Assets, liabilities, and net assets or equity* (continued):

iv) *Capital assets* (continued) - account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Township has elected to account for infrastructure assets prospectively, beginning April 1, 2004.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	15 - 40 years
Equipment	5 years
Infrastructure	20 years

v) *Fund equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

vi) *Property tax revenue recognition* - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the Township. The Township considers property taxes levied December 1 to be revenue of the current year. The Township did not levy an operating tax during the fiscal year ending March 31, 2008. Property tax revenue consists solely of trailer tax, tax administration fees, penalties and interest, and Section 425 revenue.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the activity level. All annual appropriations lapse at the end of the fiscal year.

The following schedule sets forth significant budget variations:

<u>Fund</u>	<u>Function</u>	<u>Activity</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
General	Public works	Road maintenance	\$ 120,000	\$ 139,144	\$ (19,144)
		Recycling	-	9,800	(9,800)

The Township has not adopted a budget for the Capital Improvement Fund.

Township of Fabius
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH AND INVESTMENTS:

The Township's cash and investments are as follows:

	<u>Governmental activities</u>	<u>Fiduciary</u>	<u>Totals</u>
Cash	\$ 2,429,726	\$ 2,088	\$ 2,431,814
Investments	475,645	-	475,645
Cash on hand	<u>50</u>	<u>-</u>	<u>50</u>
	<u>\$ 2,905,421</u>	<u>\$ 2,088</u>	<u>\$ 2,907,509</u>

Deposits with financial institutions:

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) and the Township's investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. Except as follows, the Township's deposits are in accordance with statutory authority. The Township holds six certificates of deposit (total value of \$440,264) with banks that do not operate within the State. The certificates mature between 2009 and 2012, but are callable by the bank.

Custodial credit risk of deposits is the risk that, in the event of the failure of a depository financial institution, the Township will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of March 31, 2008, \$1,684,980 of the Township's bank balances of \$2,702,670 was exposed to custodial credit risk because it was uninsured.

The Township believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

Investments:

State statutes and the Township's investment policy authorize the Township to invest in a) obligations of the U.S. Treasury, agencies, and instrumentalities; b) commercial paper rated within the two highest rate classifications, which mature not more than 270 days after the date of purchase; c) repurchase agreements, collateralized by U.S. governmental securities; d) bankers' acceptances; and e) mutual funds composed of otherwise legal investments. The Township's investments are carried at cost, which approximates fair market value. The Township's investments are in accordance with statutory authority.

Township of Fabius
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH AND INVESTMENTS (Continued):

The Township's investments are subject to several types of risk, which are discussed below:

Custodial credit risk. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the Township will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. State statutes and the Township's investment policy do not contain requirements that would limit the exposure to custodial credit risk for investments. At year end, the following investment securities were uninsured and unregistered and held by the same broker-dealer (counterparty) that purchased the securities for the Township:

<u>Investment type</u>	<u>Carrying amount</u>
U.S. government and agency securities	<u>\$ 475,645</u>

Interest rate risk. Interest rate risk is the risk that the value of an investment will decrease as a result of an increase in market interest rates. Generally, longer investment maturities generate more sensitivity to changes in an investment's fair value due to changes in market interest rates. The Township monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The Township's investment policy has no specific limitations with respect to maturities of investments. At year end, the average maturities of the Township's investments are as follows:

<u>Investment type</u>	<u>Fair value</u>	<u>Weighted average maturity (in years)</u>
U.S. government and agency securities:		
Tennessee Valley Authority Senior Notes	\$ 164,644	0.12
Federal Home Loan Bank	130,625	4.26
Treasury notes	130,376	0.12
Federal National Mortgage Association	<u>50,000</u>	0.59
	<u>\$ 475,645</u>	
Portfolio weighted average maturity		1.31

Township of Fabius
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH AND INVESTMENTS (Continued):

Credit risk. Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Obligations of the U.S. Government are not considered to have credit risk. At year end, the credit quality ratings of the Township's other investments are as follows:

<u>Investment type</u>	<u>Fair value</u>	<u>Rating</u>	<u>Rating organization</u>
U.S. government and agency securities:			
Tennessee Valley Authority Senior Notes	\$ 164,644	AAA	S&P
Federal Home Loan Bank	130,625	AAA	S&P
Federal National Mortgage Association	50,000	AAA	S&P

Concentration of credit risk. State statutes and the Township's investment policy place no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities) that represent 5% or more of the Township's total investments are as follows:

<u>Investment type</u>	<u>Fair value</u>	<u>Percentage</u>
U.S. government and agency securities:		
Tennessee Valley Authority Senior Notes	\$ 164,644	35%
Federal Home Loan Bank	130,625	27%
Federal National Mortgage Association	50,000	11%

NOTE 4 - RECEIVABLES:

Receivables as of year end are as follows:

<u>Fund</u>	<u>Accounts</u>	<u>Inter- governmental</u>	<u>Totals</u>
General	\$ 69,472	\$ 35,294	\$ 104,766

All receivables are considered fully collectible within one year.

Township of Fabius
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended March 31, 2008, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated - land				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Infrastructure	<u>-</u>	<u>62,000</u>	<u>-</u>	<u>62,000</u>
Total capital assets not being depreciated	<u>\$ 1,000</u>	<u>\$ 62,000</u>	<u>\$ -</u>	<u>\$ 63,000</u>
Capital assets being depreciated:				
Buildings and improvements	258,881	17,455	-	276,336
Equipment	32,493	2,482	(6,111)	28,864
Infrastructure	<u>340,432</u>	<u>134,733</u>	<u>-</u>	<u>475,165</u>
Subtotal	<u>631,806</u>	<u>154,670</u>	<u>(6,111)</u>	<u>780,365</u>
Less accumulated depreciation for:				
Buildings and improvements	(98,238)	(7,860)	-	(106,098)
Equipment	(19,682)	(4,465)	5,421	(18,726)
Infrastructure	<u>(20,192)</u>	<u>(19,828)</u>	<u>-</u>	<u>(40,020)</u>
Subtotal	<u>(138,112)</u>	<u>(32,153)</u>	<u>5,421</u>	<u>(164,844)</u>
Total capital assets being depreciated, net	<u>493,694</u>	<u>122,517</u>	<u>(690)</u>	<u>615,521</u>
Governmental activities capital assets, net	<u>\$ 494,694</u>	<u>\$ 184,517</u>	<u>\$ (690)</u>	<u>\$ 678,521</u>

Depreciation expense was charged to functions of the Township as follows:

Governmental activities:	
General government	\$ 12,324
Public safety	2,280
Public works	<u>17,549</u>
	<u>\$ 32,153</u>

Township of Fabius
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - PAYABLES:

Payables as of year end are as follows:

<u>Fund</u>	<u>Accounts</u>	<u>Payroll</u>	<u>Inter- governmental</u>	<u>Total</u>
General	\$ 12,927	\$ 5,021	\$ 29,056	\$ 47,004

NOTE 7 - ROYALTY AGREEMENT:

The Township has a contractual agreement with a waste management company to receive a fee based upon usage at the site until the facility closes. The fee is based on the rate of 77.4 cents per ton. The facility has no immediate plan for closure as of March 31, 2008.

NOTE 8 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended March 31, 2008, is as follows:

Revenues	\$ 33,828
Expenses	<u>34,960</u>
Deficiency of revenues over expenses	<u>\$ (1,132)</u>
Cumulative excess, included in fund balance reservation of General Fund	<u>\$ 15,443</u>

NOTE 9 - JOINT VENTURE:

Lockport, Fabius, Park Township Fire Association:

The Township is a member of the Lockport, Fabius, Park Township Fire Association (the Association), which is a joint venture of the Townships of Lockport, Fabius, and Park. The Administrative Board of the Association consists of members appointed by each participating unit and a member at-large. The Association was formed to jointly provide fire protection services within the combined service area, which encompasses the participating municipalities. During the year ended March 31, 2008, the Township of Fabius contributed \$121,450 as its proportionate share of the Association's budgeted costs, including the Township's share of the land purchased for future construction of a new fire station. Complete audited financial statements for the Association can be obtained from the Treasurer of the Township of Lockport.

NOTE 10 - RISK MANAGEMENT:

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for each of these claims and is neither self-insured, nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Township of Fabius
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 11 - DEFINED CONTRIBUTION PENSION PLAN:

The Township provides pension benefits for substantially all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Michigan State Statute assigns the authority to establish and amend benefit provisions to the Township Board of Trustees. Employees are eligible to participate from the date of employment. The Township annually contributes 25% of the participant's base salary and participants are immediately 100% vested. The Township made the required contributions of \$14,201. The Township is not a trustee of the plan, nor is the Township responsible for investment management of plan assets.

NOTE 12 – SUBSEQUENT EVENT

On August 20, 2008 the Township passed a resolution and entered into an inter-local agreement with Lockport, Fabius, Park Township Fire Association, committing to the funding of a minimum of one third of the cost for the construction of a new fire station. The total anticipated construction costs are approximately \$1,400,000 bringing the Township's commitment to a minimum of approximately \$467,000.

REQUIRED SUPPLEMENTARY INFORMATION

Township of Fabius

BUDGETARY COMPARISON SCHEDULE - General Fund

Year ended March 31, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes	\$ 42,400	\$ 42,400	\$ 48,752	\$ 6,352
Licenses and permits	37,500	37,500	33,828	(3,672)
State grants	230,200	230,200	230,578	378
Charges for services	25,700	25,700	32,286	6,586
Interest, rentals, and royalties	362,200	362,200	392,255	30,055
Other	<u>2,000</u>	<u>2,000</u>	<u>1,928</u>	<u>(72)</u>
Total revenues	<u>700,000</u>	<u>700,000</u>	<u>739,627</u>	<u>39,627</u>
EXPENDITURES				
Legislative	<u>15,000</u>	<u>18,000</u>	<u>15,087</u>	<u>2,913</u>
General government:				
Supervisor	20,000	20,000	17,345	2,655
Election	3,000	3,000	2,415	585
Assessor	36,000	36,000	32,557	3,443
Clerk	20,000	22,000	22,364	(364)
Board of review	2,000	2,000	606	1,394
Treasurer	45,000	45,000	39,014	5,986
Hall and grounds	43,000	43,000	35,334	7,666
Cemetery	3,000	3,000	3,810	(810)
Other	<u>115,000</u>	<u>135,000</u>	<u>122,650</u>	<u>12,350</u>
Total general government	<u>287,000</u>	<u>309,000</u>	<u>276,095</u>	<u>32,905</u>
Public safety:				
Law enforcement	95,000	95,000	86,990	8,010
Fire protection	80,000	81,000	75,543	5,457
Inspections	<u>25,000</u>	<u>33,000</u>	<u>29,354</u>	<u>3,646</u>
Total public safety	<u>200,000</u>	<u>209,000</u>	<u>191,887</u>	<u>17,113</u>
Public works:				
Road maintenance	95,000	120,000	139,144	(19,144)
Recycling	-	-	9,800	(9,800)
Soil conservation - wetlands	<u>20,000</u>	<u>20,000</u>	<u>777</u>	<u>19,223</u>
Total public works	<u>115,000</u>	<u>140,000</u>	<u>149,721</u>	<u>(9,721)</u>

Township of Fabius

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended March 31, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)				
Health and welfare - ambulance service	\$ 12,000	\$ 12,000	\$ 9,586	\$ 2,414
Community and economic development - planning and zoning	15,000	26,000	26,893	(893)
Recreation and cultural - library	56,000	56,000	56,000	-
Capital outlay	-	69,000	69,183	(183)
Total expenditures	700,000	839,000	794,452	44,548
DEFICIENCY REVENUES OVER EXPENDITURES	-	(139,000)	(54,825)	84,175
OTHER FINANCING SOURCES				
Transfer from Capital Improvement Fund	-	-	60,000	60,000
NET CHANGES IN FUND BALANCES	-	(139,000)	5,175	144,175
FUND BALANCES - BEGINNING	790,375	790,375	790,375	-
FUND BALANCES - ENDING	<u>\$ 790,375</u>	<u>\$ 651,375</u>	<u>\$ 795,550</u>	<u>\$ 144,175</u>

September 12, 2008

Board of Trustees
Township of Fabius

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Fabius (the Township) as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the a governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

Segregation-of-duties The Township Treasurer has the following incompatible duties with regards with the tax receiving fund: 1) receives property tax receipts under single control, 2) posts property tax receipts to the subsidiary ledger and general ledger, 3) writes checks to the appropriate governmental unit, 4) has check signing authority. The Clerk also signs all tax disbursement checks as an added control.

Because of these incompatible duties, errors or fraud may occur and not be detected by internal accounting controls. We recommend that the Board of Trustees explore ways of segregating duties of the Treasurer and closely monitor the fiduciary responsibilities of the Township. We recommend that the Township continue to periodically review their bonding coverage for all personnel to assure that adequate coverage is maintained.

To the Board of Trustees
The Township of Fabius
September 5, 2008
Page 2

Disbursements During our random disbursement testing we noted certain charges that were paid with credit cards and lacked original support. Based on inquiries with management it appears that these charges totaling approximately \$450 may have been billed to the Township's credit card in error and not detected internally. We recommend that each individual charge on the Township's credit card be reviewed and approved prior to payment. Additionally, we noted several months that the Township incurred late fees on their credit card statements.

This Communication is intended solely for the use of the Township Board, management and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Very Truly Yours,

A handwritten signature in black ink that reads "Seber Tans, PLC". The signature is written in a cursive, flowing style.

Seber Tans, PLC

September 12, 2008

Board of Trustees
Township of Fabius, Michigan

We have audited the financial statements of the governmental activities; each major fund of the Township of Fabius for the year ended March 31, 2008, and have issued our report thereon dated September 12, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 30, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Township of Fabius are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended March 31, 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were:

Management's estimate of depreciation is based on the economic useful lives of capital and infrastructure assets. We evaluated the key factors and assumptions used to develop this estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Some of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 12, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the

governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Trustees and management of the Township of Fabius and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Seber Tans, PLC". The signature is written in a cursive, flowing style.

Seber Tans, PLC